



Sustainability Report 2025

Novartis Pension Fund 1



Introduction

The Novartis Pension Fund 1 was one of the first pension funds in Switzerland to include ESG criteria in its investment strategy. We see it as our fiduciary duty to invest sustainably and responsibly in order to safeguard the pensions of our insured members for the future. For this reason, sustainability considerations, in particular the impact of climate change, are integrated into our investment approach. This report provides information on how we do this and what we have achieved so far.

Daniel Weiss, Chairman of the Board of Trustees

Highlights

- ESG is an integral part of the selection of financial investments and external asset managers
- Reduction of greenhouse gas emissions from shares, corporate bonds and Swiss real estate by 50% by 2030 (vs. 2019) with a view to limiting global warming by 1,5°C
- Active promotion of climate solutions through targeted allocation within equities, bonds (green bonds) and infrastructure (renewable energies)
- Climate dialog with companies and external asset managers
- Membership of the UN Principles for Responsible Investment initiative
- Membership of the Net Zero Asset Owner Alliance
- Membership of Climate Action 100+
- The "Novartis in Society" report provides information on ESG at Novartis¹

What does ESG mean for the Novartis Pension Fund 1?

The abbreviation ESG refers to the consideration of sustainability criteria when selecting financial investments. These include the impact on the environment, relations with the company's social partners (social) and ethical aspects of corporate management (governance).

¹ https://www.novartis.com/sites/novartis_com/files/novartis-integrated-report-2024.pdf

ESG and climate strategy for financial investments

June 2025 (investment portfolio at the end of Q1 2025)

The pension fund's assets are invested in accordance with sustainability criteria with the aim of ensuring the responsible use of financial resources and effective management of ESG risks. The pension fund has therefore joined the UN-sponsored PRI initiative, which has developed six principles for the practical implementation of fiduciary responsibility. Climate change represents a significant risk and can potentially affect all asset classes. In order to counteract the financial aspects of climate risk and take responsibility for the climate impact of the investments made, the pension fund has joined the Net Zero Asset Owner Alliance and Climate Action 100+.

PRI initiative for responsible investment

The implementation of the six principles serves as the basis for successful long-term value creation of the investments. These include the incorporation of ESG issues in the assessment of investment opportunities and risks, active involvement as a shareholder, the demand for transparency, acceptance of the PRI principles by the external asset managers commissioned by the pension fund, exchange with other financial market participants and reporting on the implementation of the principles. The latter is available under the title "Transparency Report of the Novartis Pension Fund" and can be accessed on the PRI website.

Ethically based investment exclusions

A key element in managing sustainability risks is the exclusion of companies with ethically questionable products or business practices. For this reason, no direct investments are made in companies that (a) repeatedly commit human rights violations, (b) maintain business relationships with totalitarian regimes and (c) engage in armaments or tobacco production as their core business. A core business is considered to be a share of sales of more than 10 percent. Directly held shares and bonds are subject to the exclusions.

Investment exclusions based on sustainability risks

As energy, utilities and industrial companies as well as basic materials manufacturers contribute to climate change in a particular way and are exposed to uncertainties regarding their business models, companies in these sectors must have sufficient sustainability ratings. Only MSCI ESG ratings in the AAA to BB range are taken into account for the investment, i.e., no investments are made in the two lowest rating categories (B and CCC). If a company already represented in the portfolio is downgraded to B or CCC, the investment is sold if that is in the best interest of the pension fund. Directly held shares and bonds of companies are subject to the exclusions.

Furthermore, within the bond portfolio, no investments are made in government or quasi-sovereign issuers if they have an MSCI ESG Sovereign rating of B or CCC.

Decarbonization of the investment portfolio

According to the Intergovernmental Panel on Climate Change, global warming can be limited to +1,5°C by reducing net emissions of carbon dioxide to zero by 2050 and all other greenhouse gases to zero by 2070 – provided that a reduction of at least a 50% reduction is achieved within the current decade. To contribute to this goal, to which Switzerland has also officially committed, greenhouse gas emissions from the key asset classes (equities, corporate bonds, real estate) are to be reduced by a net 50% by 2030 compared to 2019. The reduction target relates to operational emissions (Scope 1) and emissions associated with energy procurement (Scope 2). Emissions from the entire value chain (Scope 3) are insufficiently reported and must be estimated by using models. Due to the high estimation uncertainty, setting a reduction target for Scope 3 emissions is therefore not reasonable.

No financing of the coal business in mining and the energy industry

According to the Intergovernmental Panel on Climate Change, a successful 1,5°C strategy is only possible if the industrialized countries completely abandon the use of thermal coal without emission capture by 2030 (and the other countries by 2040). The pension fund will therefore no longer invest directly in shares or bonds of companies whose coal share of sales or energy production exceeds 10%, or which intend to expand their coal capacity. Green bonds are excluded, as they finance the transition to a lower-emission business model.

Best-in-class selection of companies whose business activities are significantly dependent on the production or consumption of fossil fuels and natural gas

Energy, utilities and industrial companies as well as commodity producers account for a significant share of greenhouse gas emissions – due to the production of fossil fuels, emission-intensive industrial processes, or the manufacture of products associated with fossil fuel consumption. As investors, we expect these companies to develop emission targets in line with scientific knowledge that are compatible with 1,5°C. In the best case, the entire production chain is included (i.e., Scope 1-3) and a verifiable strategy ("transition plan") is developed. In the minimum case, the emissions intensity from own production (Scope 1-2) should not exceed the median of comparable companies. This filter serves as additional protection for assets against rising risk premiums for companies that make a significant contribution to global warming.

Financing of climate solutions

In order to enable a shift away from fossil fuels (and other economic activities that cause greenhouse gas emissions), investments are increasingly being made in companies that offer so-called climate solutions (e.g., energy generation from renewable sources, products and services to improve energy efficiency). The allocation of the equity portfolio in favor of climate solutions should therefore exceed that of the global benchmark (MSCI World). In addition, 15% of the entire bond portfolio is to be invested in green bonds. For infrastructure investments, the aim is also to invest 15% of the sub-fund in activities related to the production and distribution of renewable energies.

Climate-related dialog with companies (Climate Action 100+)

Dialogue with the companies represented in the investment portfolio plays a key role in their willingness to eliminate the greenhouse gas emissions for which they are responsible as completely as possible (net zero) and to set appropriate interim targets for this purpose. In the interest of effective influence, the pension fund has joined the investor group Climate Action 100+ as a Support Member and thus supports its demands for rapid decarbonization of the real economy, meaningful climate reporting and direct management responsibility for the material climate aspects of corporate policy.

Climate-related dialog with external asset managers

External asset managers who manage sub-funds or fund products on behalf of the pension fund should support the pension fund's climate strategy wherever possible. To this end, their profile in terms of climate targets, financed emissions and stewardship activities is developed in direct dialog with the managers and taken into account when awarding mandates.

Exercise of shareholder voting rights

The pension fund attaches great importance to exercising shareholder voting rights, particularly in respect of climate-relevant voting proposals. As the indirect equity investments are made in the form of actively managed investment funds or passive exchange-traded funds, the voting rights are held by the respective fund companies and are therefore not exercised directly by the pension fund. Voting behavior is reviewed periodically, particularly with regard to climate-relevant shareholder decisions, which are flagged by Climate Action 100+.

Voting rights for directly held shares are exercised by UBS Asset Management on behalf of the pension fund, taking climate criteria into account.

Net Zero Asset Owner Alliance

Since 2022, the pension fund has been a member of the Net Zero Asset Owner Alliance, an investor initiative sponsored by the UN and PRI, which aims to decarbonize the real economy and thus also the investment portfolios on the basis of a jointly developed action plan. All the elements of the climate strategy described above – decarbonization, financing of climate solutions and dialogue with companies and external asset managers – are components of the Target Setting Protocol to which the pension fund has committed itself vis-à-vis the Net Zero Asset Owner Alliance.

Swiss Climate Scores

In 2022, the Swiss Federal Council adopted the Swiss Climate Scores, a best practice recommendation for climate reporting by financial institutions. This sustainability report largely complies with the minimum criteria in terms of scope of information and data presentation. Exempt is the (optional) determination the "global warming potential". Ideally, this indicator would be used to determine the global rise in temperature if the greenhouse gas emissions financed by the investment portfolio were representative of the global economy. However, the current methodological uncertainties do not allow a reliable statement to be made on the climate compatibility of the investments.

Key climate metrics of the investment portfolio

The disclosure of climate indicators is based on the Swiss Climate Scores. Details are provided under "Explanations on the climate indicators".

1 Greenhouse gas emissions in relation to the economic output of companies

tCO₂e per CHF million sales (emissions intensity)

Target is to reduce emissions intensity (Scope 1+2) by 50% by 2030 compared to 2019

Asset class	Portfolio	Covered assets	Reduction compared to 2019	Benchmark
Developed markets equities				
Scope 1+2	94,7	100,0%	-42,4%	109,3
Scope 3	720,9	98,7%	-8,4%	771,3
Emerging markets equities				
Scope 1+2	237,6	98,5%	-38,8%	338,6
Scope 3	826,8	82,1%	-22,5%	951,4
Corporate bonds				
Scope 1+2	126,0	95,6%	-20,1%	156,1
Scope 3	706,1	92,1%	-16,8%	783,3

2 Greenhouse gas emissions in relation to the capital invested in companies

tCO₂e per CHF million Fixed assets (financed emissions)

Target is to reduce financed emissions (Scope 1+2) by 50% by 2030 compared to 2019

Asset class	Portfolio	Covered assets	Reduction compared to 2019	Benchmark
Developed markets equities				
Scope 1+2	30,5	92,9%	-54,1%	36,4
Scope 3	306,9	98,3%	-23,9%	333,8
Emerging markets equities				
Scope 1+2	92,9	81,1%	-72,6%	160,6
Scope 3	549,1	81,8%	-22,2%	556,3
Corporate bonds				
Scope 1+2	59,9	92,9%	-8,7%	53,4
Scope 3	367,9	92,1%	-25,8%	402,8

3 Greenhouse gas emissions from real estate (excluding construction/conversion)

kgCO₂e per usable area (m²)

Target is to reduce emissions per usable area (Scope 1+2) by 50% by 2030 compared to 2019

Asset class	Intensity (Scope 1+2)	Covered assets	Reduction compared to 2019	Energy source fossil / renewable
Real Estate Switzerland	12,1	87%	-24,8%	69% / 31%

4 Exposure to fossil fuels

Weighting of companies with more than 5% share of sales (entire value chain)

Asset class	Coal	Benchmark	Oil and gas	Benchmark
Developed countries equities	0,5%	1,0%	8,8%	9,2%
Emerging markets equities	0,8%	1,5%	3,4%	3,8%
Corporate bonds	0,2%	1,8%	16,0%	9,8%

5 Share of companies with verified plans for full decarbonization (net zero)

Weighting of companies with climate strategies declared to SBTi or validated by SBTi

Asset class	Declared goals	Benchmark	Validated targets	Benchmark
Developed countries equities	8,8%	9,0%	49,0%	47,5%
Emerging markets equities	4,4%	4,7%	18,2%	19,7%
Corporate bonds	14,1%	7,4%	31,9%	32,0%

6 Exercise of voting rights in the equity portfolios in 2024

Exercise of voting rights of directly held shares delegated to UBS Asset Management

Asset class	Number of GMs	Participation rate	For management	Against management
Shares held directly	355	94%	89%	11%
Developed countries equities (funds)	3737	99%	94%	6%
Emerging markets equities (funds)	4505	99%	83%	16%

The pension fund's voting mandate with UBS Asset Management covers all directly held shares. The participation rate at the AGMs shows the (weighted) coverage by our service providers. "For" and "against" management refers to the number of agenda items at the AGMs attended.

7 Exercise of voting rights in 2024 for climate-related agenda items

Agenda items related to the engagement goals of Climate Action 100+

Asset class	Number of agenda items	Proposed by Management	Proposed by Shareholders
Shares held directly	11	6× pro 1× contra	3× pro 1× contra
Developed countries equities (funds)	46	24× pro	4× pro 18× contra
Emerging markets equities (funds)	No climate-relevant agenda items in 2024		

8 Climate engagement with companies via Climate Action 100+

Weighting of the invested companies in dialog with Climate Action 100+, as well as their share of portfolio emissions (Scope 1-2)

Asset class	Portfolio weighting	Benchmark weighting	Issue share portfolio	Emission share Benchmark
Developed countries equities	11,9%	13,4%	60,4%	56,9%
Emerging markets equities	7,0%	7,8%	26,0%	35,9%
Corporate bonds	19,4%	16,1%	55,6%	62,9%

9 Financing of climate solutions

Climate solutions include products and services that contribute to reduced emissions

Asset class	Target allocation	Actual exposure
Developed countries equities	Sales share of climate solutions higher than MSCI World	Portfolio: 8,1% MSCI World: 7,7%
Emerging markets equities	Sales share of climate solutions higher than MSCI World	Portfolio: 2,4% MSCI EM: 2,6%
Bonds	15% Green bonds	12,3%
Infrastructure	15% Renewable energies	13,2%

Explanations of the climate indicators

1 Greenhouse gas emissions in relation to the economic output of companies

Emission intensity measures emissions relative to corporate sales. Economic sectors can be compared directly with each other, as can shares versus corporate bonds. Greenhouse gases are measured in terms of their radiative forcing equivalent to carbon dioxide (tCO₂e).

For the base year 2019, company emissions were weighted by their portfolio share at the end of the year. For current figures, the latest available issue emissions data was weighted by the portfolio share as at March 2025.

MSCI ESG estimates for Scope 3 emissions
Source: MSCI ESG, FactSet

2 Greenhouse gas emissions in relation to the capital invested in companies

The financed emissions are the emissions in relation to the value of invested assets. Otherwise, the explanations under (1) apply.

Source: MSCI ESG, FactSet

3 Greenhouse gas emissions from real estate (excluding construction/conversion)

The average data coverage for emissions from Swiss real estate funds and foundations amounts to 87% of the usable area.

Source: Fund companies, figures as of 2022/2023

4 Exposure to fossil fuels

The value chain for energy suppliers includes the fuel mix used to generate electricity and district heating.

Source: MSCI ESG, FactSet, data on the fuel mix as of March 2025

5 Share of companies with verified plans for complete decarbonization (net zero)

Companies can commit to a net zero target (declared targets) with SBTi and must submit corresponding business plans for decarbonization within one year. SBTi then assesses whether the extent of the emission reduction is in line with the scientific guidance of the Intergovernmental Panel on Climate Change (validated targets).

Source: MSCI ESG, FactSet, SBTi data as of March 2025

6 Exercise of voting rights in the equity portfolios in 2024

Companies held by several equity funds are also included cumulatively in the number of GMs.

Source: UBS Asset Management, fund companies

7 Exercise of voting rights in 2024 for climate-related agenda items

Agenda items that Climate Action 100+ identifies as relevant to the climate policy goals pursued by the organization are designated as climate-relevant (flagged votes).

Source: Climate Action 100+, data as at March 2025

8 Climate engagement with businesses via Climate Action 100+

Please note: In the "Developed countries equities" portfolio, Climate Action 100+ focuses on companies that together account for 11.9% of the portfolio's market value. These companies account for 60.4% of the sub-fund's greenhouse gas emissions (Scope 1-2).

Source: MSCI ESG, FactSet, data as at March 2025

9 Financing of climate solutions

Climate solutions for equities and infrastructure investments include business activities (measured in terms of sales) that make it possible to replace fossil fuels or reduce the use of fossil fuels (through improved energy efficiency). In the case of bonds, on the other hand, direct reference can be made to the earmarked use of funds from green bonds.

Source: MSCI ESG, FactSet, UBS, in each case as at the end of March 2025

Glossary

Climate Action 100+	Investor initiative with the aim of ensuring that the world's largest greenhouse gas emitters take the necessary measures to combat climate change
Climate solutions	Percentage of a company's revenue generated from products or services related to renewable energy, energy efficiency, green building or sustainable agriculture
Decarbonization	Conversion to an economy (energy procurement, industrial production, agriculture) that sustainably reduces greenhouse gas emissions with the long-term goal of a largely emission-free economy
Green bonds	Bonds intended exclusively for the financing of climate-positive investments
Greenhouse gas emissions (Scope 1, 2, 3)	Carbon dioxide and methane are the main contributors to global warming; they are released during operational production (Scope 1), during production of the purchased energy (Scope 2) and above all in the upstream and downstream value chain (Scope 3)
Intergovernmental Panel on Climate Change (IPCC)	Committee founded by the UN to compile the findings of global climate research and present them to political decisionmakers
MSCI ESG Ratings	Systematic assessment of a company's financially relevant ESG risks and how these risks are managed by the company
Net Zero	Economic activity without increasing the concentration of greenhouse gases in the atmosphere (unavoidable emissions are bound by technical processes and stored)
Net Zero Asset Owner Alliance	Network of institutional investors committed to reducing greenhouse gas emissions in their portfolios to net zero by 2050
PRI initiative (Principles for Responsible Investment)	Investor initiative in partnership with the UN, whose participants commit to six fundamental sustainability principles
SBTi (Science-Based Targets Initiative)	Initiative that uses scientific criteria to assess whether corporate emissions targets are sufficient to limit global warming to +1,5°C or 2,0°C
Swiss Climate Scores	Reporting standard recommended by the Federal Council on the climate compatibility of financial investments
tCO2e	Tons of carbon dioxide equivalent

Publisher:
Novartis Pension Funds, P.O. Box, CH-4002 Basel

© 2025 Novartis Pension Funds

This Sustainability Report is also available in other languages. All language versions can be viewed on the Internet at

www.pensionskassen-novartis.ch